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STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

IP 2005(10)

INFORMATIONAL PUBLICATION

**Q & A: Income Tax Credit for Property Taxes
Paid to a Connecticut Political Subdivision**

Purpose: This Informational Publication answers commonly-asked questions about the income tax credit for property taxes paid to a Connecticut political subdivision.

Effective Date: Effective for taxable years beginning on or after January 1, 2005, but prior to January 1, 2006.

Statutory Authority: Conn. Gen. Stat. §12-704c(b)

1. What is the income tax credit for property taxes paid to a Connecticut political subdivision?

If you are a Connecticut resident and made qualifying property tax payments on your eligible property, you may be able to claim a credit against your 2005 Connecticut income tax liability. The maximum property tax credit is \$350 per return.

2. What is my eligible property?

Your eligible property is your primary residence (if owned by you) or your privately owned or leased motor vehicle. See Questions 8 and 9.

3. What are qualifying property tax payments?

Qualifying property tax payments are payments of property taxes on your eligible property that:

- You made during 2005 to a Connecticut political subdivision and for which you are liable (or if you file a joint return with your spouse for which you, your spouse, or both of you, are liable); **and**
- First became due during 2005, including supplemental property taxes on a motor vehicle that first became due during 2005. Where property taxes are due and payable in two or more installments, each installment is first due on the date designated by the Connecticut political subdivision.

Qualifying property tax payments do not include any interest, fees, or charges related to property taxes.

If a Connecticut political subdivision designates that an installment is due and payable during 2005, the installment is first due during 2005 and qualifies for the credit if paid during 2005.

Example 1: Lisa received a property tax bill for a motor vehicle listed on her town's October 1, 2003, grand list. The bill was payable in two installments, July 1, 2004, and January 1, 2005. If Lisa paid the January 1, 2005, installment during 2005, she would claim it on her 2005 income tax return. If she prepaid it during 2004, she would not be eligible to claim it on her 2005 return, but she may have been eligible to claim it on her 2004 return.

If a Connecticut political subdivision designates a property tax installment as due and payable during 2006, but an earlier installment of that property tax first became due during 2005, you may choose to treat the 2006 installment as first becoming due during 2005 if you paid it during 2005. On the other hand, if you paid the 2006 installment during 2006, you may not use the payment to calculate the 2005 property tax credit, but you may use the payment to calculate the 2006 property tax credit.

Example 2: Mary received a property tax bill for a motor vehicle listed on her town's October 1, 2004, grand list. The bill was payable in two installments, July 1, 2005, and January 1, 2006. Mary is eligible to take credit for both installments on her 2005 income tax return if she paid both installments during 2005. If Mary waited until 2006 to pay her second installment, she would not be eligible to claim it on her 2005 return, but she may be eligible to claim it on her 2006 return.

Payments of property taxes on your privately leased motor vehicle are also qualifying property tax payments if you or the leasing company made payments of property taxes during 2005 to a Connecticut political subdivision that first became due during 2005. See Question 9.

4. What is a Connecticut political subdivision?

It is a Connecticut city or town or any tax district in a Connecticut city or town.

5. What limitations apply to the credit?

Depending upon the amount of property taxes paid by you to a Connecticut municipality and your Connecticut adjusted gross income, the amount of your property tax credit may be reduced or you may not be entitled to a credit.

You must complete the *Property Tax Credit Limitation Worksheet* included with your Connecticut resident income tax return instruction booklet to calculate the amount of credit you are allowed. You may use the Property Tax Credit Calculator on the Department of Revenue Services (DRS) Web site. Visit www.ct.gov/DRS and click on Filing Season Help, Property Tax Credit Calculator, or go to the Forms Link/2005 Income Tax.

6. May I claim the credit if I did not make qualifying property tax payments to a Connecticut political subdivision during 2005?

No. The property tax credit is based on qualified payments made during 2005.

7. May I claim the credit if I did not have a 2005 Connecticut income tax liability?

No. If your Connecticut income tax liability as reported on your 2005 **Form CT-1040**, Line 10; **Form CT-1040EZ**, Line 4; or as computed by the Connecticut *Telefile* System is zero, you are not eligible for a credit. The credit is not refundable and may not be carried forward.

8. What is my primary residence?

Your primary residence is your principal place of abode. To qualify for the credit, the title to your primary residence must be in your name (or, if you along with another person or persons own the residence, the title must be in your names) and your primary residence must be located within Connecticut. If you rent your primary residence from someone else, you cannot claim the credit even if your

landlord bills you for the property taxes. Likewise, you may not claim the credit for property taxes you pay on a second home, vacation home, or investment property even if located in Connecticut.

9. What is my privately owned or leased motor vehicle?

It is a motor vehicle, as defined by Conn. Gen. Stat. §14-1, which includes cars, motorcycles, trucks, and any other vehicle suitable for operation on a highway and can be registered for motor vehicle registration purposes, whether or not the vehicle is registered. For example, a motor home or an antique car that could be registered for motor vehicle purposes (whether or not it is registered) and is suitable for operation on a highway is a motor vehicle. A motor vehicle is considered your privately owned motor vehicle if the title to the motor vehicle is in your name (or, if you along with another person or persons own the vehicle, the title is in both your names). A motor vehicle is considered your privately leased motor vehicle if the lease for the motor vehicle identifies you as the lessee (or, if the motor vehicle is leased to you along with another person, the lease identifies you both as the lessee).

If you lease a motor vehicle from a leasing company or anyone else, you are eligible to claim the credit (even if the leasing company pays the property taxes on your leased motor vehicle) if all of the following conditions are met:

- You had a written lease agreement for a term of more than one year;
 - You or the leasing company made qualifying property tax payments during 2005; **and**
 - You lawfully possessed the motor vehicle when the taxes first became due.
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10. How do I know the amount of qualifying property tax payments on my leased motor vehicle?

Qualifying property tax payments made during 2005 either by you or the leasing company are eligible for the credit. See Question 3. To determine the amount of property taxes eligible for the credit, refer to the January 2006 billing statement from your leasing company. Your statement will either indicate the amount of property taxes paid on your leased motor vehicle or provide you with a toll-free number you may call to obtain the necessary information. If you do not receive a billing statement in January 2006, contact your leasing company for the appropriate property tax information.

11. If I am married, how does my income tax filing status affect the amount of the credit?

Joint Return

If you and your spouse are both Connecticut residents and file a **joint federal income tax return**, you and your spouse must file a **joint Connecticut income tax return**. The credit on your joint Connecticut income tax return may not exceed \$350. If you, your spouse, or both of you, own (whether as joint tenants with right of survivorship or as tenants in common) your primary residence or own or lease your motor vehicle, you may claim the credit on your 2005 Connecticut income tax return as long as you, your spouse, or both of you, made qualifying property tax payments during 2005 on the property.

Separate Returns

If you and your spouse are Connecticut residents and you file **separate federal income tax returns**, you must file **separate Connecticut income tax returns**. The credit on your separate Connecticut income tax return may not exceed \$350 and the credit on your spouse's separate Connecticut income tax return may not exceed \$350.

Your property tax payments on your primary residence may be qualifying property tax payments but only if you own your primary residence. Your property tax payments on your motor vehicle may be qualifying property tax payments but only if you own or lease your motor vehicle. Otherwise, your property tax payments would not be qualifying property tax payments.

Your spouse's property tax payments on your primary residence may be qualifying property tax payments but only if your primary residence is also your spouse's primary residence and your spouse owns the primary residence. Your spouse's property tax payments on your motor vehicle may be qualifying property tax payments but only if your spouse owns or leases your motor vehicle. Otherwise, your spouse's property tax payments would not be qualifying property tax payments.

If you and your spouse own your primary residence together, or if you and your spouse own or lease your motor vehicle together, see the next question.

12. What if I own my primary residence or my privately owned motor vehicle with another person?

Joint Tenancy

If the property is joint tenancy (with right of survivorship) property, each joint tenant is liable for the full amount of the property tax and is eligible to claim a property tax credit of up to \$350 if at least \$350 of qualifying property tax payments were made.

Example 3: You and your sister own a motor vehicle as joint tenants with a right of survivorship. You and your sister receive a property tax bill for \$600 first due on July 1, 2005. You paid \$525 of that bill during 2005, and your sister paid \$75 of that bill during 2005. On your 2005 Connecticut income tax return, you claim your filing status is Single and report Connecticut adjusted gross income less than \$54,500.

On your sister's 2005 Connecticut income tax return, she claims her filing status is Single and reports Connecticut adjusted gross income is less than \$54,500.

While you made qualifying property tax payments of \$525, your credit may not exceed \$350. You may claim as a credit the lesser of \$350 or the amount of your Connecticut income tax liability as reported on your 2005 Form CT-1040, Line 10; Form CT-1040EZ, Line 4; or the amount computed by the Connecticut *Telefile* System.

Your sister made qualifying property tax payments of \$75 and may claim as a credit the lesser of \$75 or the amount of her Connecticut income tax liability as reported on her 2005 Form CT-1040, Line 10; Form CT-1040EZ, Line 4; or the amount computed by the Connecticut *Telefile* System.

Tenancy in Common

If the property is tenancy in common property, each tenant in common is liable for the property taxes but only to the extent of that person's interest in the property.

Each is eligible to claim the credit of up to \$350 if that person made qualifying property tax payments on the property at least equaling the credit claimed (but not exceeding that person's liability for the property tax).

Example 4: You and your cousin each own an undivided one-half interest as tenants in common in a house that is a primary residence for both of you. You and your cousin receive a property tax bill for \$600 first due on July 1, 2005, from a Connecticut municipality on that property. You paid \$350 of that bill during 2005 and your cousin paid \$125 of that bill during 2005 and \$125 of that bill during 2006. On your 2005 Connecticut income tax return, you claim your filing status is Single and report Connecticut adjusted gross income less than \$54,500. On your cousin's 2005 Connecticut income tax return, he claims his filing status is Single and reports Connecticut adjusted gross income less than \$54,500.

While you made property tax payments of \$350, only \$300 was a qualifying property tax payment.

(Each tenant in common is liable for the property taxes but only to the extent of that person's interest in the property, so you are liable for only half (\$300) of the property tax bill (\$600).) You may claim as a credit the lesser of \$300, or the amount of your Connecticut income tax liability as reported on your 2005 Form CT-1040, Line 10; Form CT-1040EZ, Line 4; or the amount computed by the Connecticut *Telefile* System.

While your cousin made property tax payments of \$250, only \$125 was a qualifying property tax payment because your cousin paid only \$125 during 2005. Your cousin may claim as a credit the lesser of \$125 or the amount of his Connecticut income tax liability as reported on his 2005 Form CT-1040, Line 10; Form CT-1040EZ, Line 4; or the amount computed by the Connecticut *Telefile* System.

13. May I claim the credit if I used a building both as my primary residence and for some other purpose?

Yes, but only a portion of the property tax payments on the building are qualifying property tax payments. If your circumstances are the same as those described in either of the following examples, you must calculate the portion of the property tax payments on the building that are qualifying tax payments.

Example 5: Herb used part of a building he owned as his primary residence for the entire taxable year and the rest of the building as rental property for the entire taxable year. Only a portion of the property tax payments on the building are qualifying property tax payments. Herb must calculate the portion of property tax payments on the building that are qualifying property tax payments.

Example 6: Jennifer used a building she owned as her primary residence for part of the year and to carry on a trade or business (and not as her primary residence) for the rest of the year. Only a portion of the property tax payments on the building are qualifying property tax payments. Jennifer must calculate the portion of property tax payments on the building that are qualifying property tax payments.

To calculate the amount of property taxes on the building eligible for the credit, multiply the property taxes you paid during the taxable year on the building by the following fraction. The **numerator** of the fraction is the amount of property taxes you paid during the taxable year on the building and that is deductible from your federal adjusted

gross income on federal Schedule A, Itemized Deductions. The **denominator** of the fraction is the sum of the amount of property taxes you paid during the taxable year on the building and that is deductible from your:

1. Federal gross income as a trade, business, or rental property expense; **and**
2. Federal adjusted gross income on federal Schedule A, Itemized Deductions.

The result is the portion of the property tax payments on the building that are qualifying property tax payments.

14. May I receive a refund or carry forward the excess to my 2006 Connecticut income tax return if I made property tax payments in excess of my tax liability?

No. The maximum credit allowed is \$350, and any excess may not be refunded or carried forward.

15. May I claim the credit on more than one privately owned or leased motor vehicle?

Yes. If your filing status for Connecticut income tax purposes is Married Filing Jointly, you may include qualifying property tax payments on up to two motor vehicles you own or lease. If your filing status for Connecticut income tax purposes is Single, Married Filing Separately, or Head of Household, you may include qualifying property tax payments on only one motor vehicle you own or lease even if you sell a motor vehicle and purchase (or lease) a replacement motor vehicle during the taxable year and only own (or lease) one motor vehicle at any time during the taxable year.

16. May I claim the credit if I pay property taxes on another person's primary residence or privately owned or leased motor vehicle?

No, unless that other person is your spouse and you and your spouse are required to file a joint Connecticut income tax return. See Question 11.

17. May property tax payments made by a cooperative housing corporation be deemed to be qualifying property tax payments made by a tenant-shareholder?

Yes, if all of the following conditions are met:

- A tenant-shareholder's apartment in the building owned by the cooperative housing corporation must be the tenant-shareholder's primary residence;

- The cooperative housing corporation must have made payments during 2005 to a Connecticut political subdivision of property taxes that first became due during 2005, and those taxes must have been allowable as a deduction to the cooperative housing corporation under §164 of the Internal Revenue Code (I.R.C.); **and**
- The tenant-shareholder must have paid to the cooperative housing corporation during 2005 his or her proportionate share of those property taxes.

Qualifying tax payments made by the tenant-shareholder may not exceed the tenant-shareholder's proportionate share of the real estate taxes allowable as a deduction to the tenant-shareholder under I.R.C. §216 for the tenant-shareholder's 2005 taxable year. The tenant-shareholder should retain with his or her records the notice received from the cooperative housing corporation concerning the tenant-shareholder's proportionate share of the real estate taxes and the date when property tax payments were made by the cooperative housing corporation to the Connecticut political subdivision.

18. May a nonresident or a part-year resident claim the credit?

No. Only Connecticut resident individuals are eligible. Resident trusts or estates are also not eligible.

19. What records should I keep to substantiate the credit I claimed?

A receipt from the Connecticut political subdivision, a billing statement from your leasing company, your canceled check in payment of property tax, or a federal Form 1098, Mortgage Interest Statement, from your bank or mortgage company (if property tax is included in your monthly mortgage payments) is sufficient to support your claim for credit. Do not attach these records to your tax return. Keep these records for at least three years from the due date (or, if you request an extension of time to file your return, from the extended due date) of your return.

20. What if I am not a calendar year taxpayer for federal income tax purposes?

Most individuals use the calendar year as their taxable year for federal income tax purposes and, therefore, for Connecticut income tax purposes. If you use a fiscal year other than the calendar year as your taxable year for federal income tax purposes, you must also use that fiscal year for Connecticut income tax purposes. You may claim the

credit for property taxes that first became due during your taxable year beginning in 2005 and that you paid during your taxable year beginning in 2005. Wherever this Informational Publication refers to 2005, substitute your taxable year beginning in 2005.

21. What if I am not a cash basis taxpayer for federal income tax purposes?

Most individuals are cash basis taxpayers for federal income tax purposes and, therefore, for Connecticut income tax purposes. If you are an accrual basis taxpayer for federal income tax purposes, you are also an accrual basis taxpayer for Connecticut income tax purposes. You may claim the credit for property taxes for which you are liable (because you own a primary residence or a privately owned motor vehicle or lease a privately leased motor vehicle) and that first became due and were paid during 2005.

Effect on Other Documents: *Informational Publication 2004(16), Q & A: Income Tax Credit for Property Taxes Paid to a Connecticut Political Subdivision*, is modified and superseded and may not be relied upon for taxable years beginning on or after January 1, 2005.

Effect of This Document: An Informational Publication addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

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- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

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